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FOR IMMEDIATE RELEASE:  
November 6, 2001

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## FEDERAL-STATE JOINT BOARD STAFF RELEASES MONITORING REPORT

### *Comprehensive Report Tracks Trends Related to Universal Service*

Washington, D.C. – The staff of the Federal-State Joint Board on universal service has released its most recent Monitoring Report on Universal Service. This report reflects information on the telephone industry filed with the Federal Communications Commission (FCC) through April 30, 2001.

The report released today addresses the various universal service support mechanisms, which amounted to greater than \$4.5 billion in 2000. The report presents current data in eleven categories:

- 1) **Industry revenues and contributions** – Industry revenues for the first half of 2000 increased by 5%, to about \$41 billion, from about \$39 billion for the first half of 1999. Total demand for the support mechanisms in the first half of 2001 increased by 26%, to about \$1.4 billion per quarter, from about \$1.1 billion per quarter in the first half of 2000. This required an increase in the contribution factor from under 6% to under 7%.
- 2) **Low income support** – Total low-income support in 2000 increased by about 8% over 1999, from about \$480 million to \$518 million. This includes the expansion of the Lifeline and Link Up programs during 2000 to address the needs of those living on tribal lands.
- 3) **High cost support** – In 2000, total high-cost support amounted to over \$2.2 billion, an average of about \$1 per loop per month. Individual company data are now available for the first time for the new interstate access universal service support mechanism, adopted in May 2000.
- 4) **Schools and libraries support** – Schools and libraries are making substantial use of their available support, with commitments as of February 2001 totaling about \$2.1 billion for the third year of the program (July 2000 - June 2001).
- 5) **Rural health care support** – The demand for rural health care support has remained at a modest level, with commitments of less than \$7 million for the second year of the program (July 1999 - June 2000).
- 6) **Subscribership and penetration** – The percentage of households subscribing to telephone service reached an all-time high average of 94.4% in 2000. Lifeline programs have significantly improved penetration rates.

- 7) **Rates and price indices** – Overall telephone rates decreased 2.3% in 2000 (compared to the general rate of inflation of 3.4% for all goods and services).
- 8) **Network usage and growth** – Total telephone usage continues to grow steadily. In 1999 there were over 4.4 trillion minutes of use, an increase of 12% from the previous year. Local calls grew by 13% in 1999, compared to a 7% increase in intrastate toll calls and a 6% increase in interstate toll calls.
- 9) **Quality of service** – The data show noticeable differences in the quality of service among carriers. For example, complaints per million residential access lines in 2000 varied from 41 for SBC Southwestern Bell to 1,049 for SBC Ameritech.
- 10) **Infrastructure** – The most rapid growth of infrastructure has been for fiber terminations (2000 growth rate of central office fiber terminations was 32%).
- 11) **Revenues, expenses and investment** – For the larger local exchange carriers, percentage of net income that is attributable to interstate (39% on average in 2000) is greater than the interstate share of revenues (28%) or expenses (26%).

A monitoring program was established in the mid-1980's, at the recommendation of the Separations Joint Board, to track trends related to universal service and related matters. Since then, Joint Board staffs have prepared Monitoring Reports at least once a year -- a compendium of hundreds of pages of statistical data on subscribership and penetration, loop costs, separations factors, universal service fund payments, etc. The report is unique in that it is the only document that includes information on every incumbent local telephone company in the nation. In 1998 the publication of this report was changed from the Separations Joint Board staff to the Universal Service Joint Board staff, and the frequency was increased. This is the fifth Monitoring Report from the Universal Service Joint Board staff.

The full text of this document is available for public inspection and copying during regular business hours at the FCC Reference Information Center, Portals II, 445 12th Street, SW, Room CY-A257, Washington, DC 20554. This document may also be purchased from the Commission's duplicating contractor, Qualex International, Portals II, 445 12th Street, SW, Room CY-B402, Washington, DC 20554, telephone 202-863-2893, facsimile 202-863-2898, or via e-mail at <[qualexint@aol.com](mailto:qualexint@aol.com)>. The report may also be downloaded from the **FCC-State Link** Internet site, which can be reached at <[www.fcc.gov/ccb/stats](http://www.fcc.gov/ccb/stats)>. It is available in both page image (.pdf) format and in a compressed (.zip) format, which, when unzipped yields word processing and spreadsheet files.

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CC Docket No. 98-202

**UNIVERSAL SERVICE**  
**MONITORING REPORT**  
**CC DOCKET No. 98-202**

**OCTOBER 2001**

(Data Received Through April 2001)

Prepared by Federal and State Staff for the  
  
Federal-State Joint Board on Universal Service in  
  
CC Docket No. 96-45

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This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street SW, Washington, DC 20554. Call International Transcription Services, Inc. at (202) 857-3800 to purchase a copy. The report can also be downloaded from the **FCC-State Link** internet site at <[www.fcc.gov/ccb/stats](http://www.fcc.gov/ccb/stats)>. Names for print image files: mrs01-0.pdf, mrs01-1.pdf, ... , mrs01-11.pdf for the introduction and each section separately. Names for compressed files in word processor (Word 97) and spreadsheet (Excel 97 or Lotus 123 .wk4) formats: mrs01-0.zip, mrs01-1.zip, ... , mrs01-11.zip.

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**Universal Service Monitoring Report**  
**CC Docket No. 98-202**  
**October 2001**

**Introduction and Summary**

This is the fifth report in a series of reports prepared by federal and state staff members for the Federal-State Joint Board on Universal Service in CC Docket No. 96-45 (Universal Service Joint Board). This report is based on information available to us as of April 30, 2001. These reports contain information designed to monitor the impact of various universal service support mechanisms, and the methods used to finance them. These mechanisms were adopted by the Federal Communications Commission (Commission), based on recommendations from the Universal Service Joint Board. These reports are part of a monitoring program created by the Commission in 1997<sup>1</sup> to replace a similar program in CC Docket No. 87-339 that resulted in a series of nineteen Monitoring Reports. The current program incorporates most of the information that was collected under the previous program, and also new materials from the reports of the administrator of the universal service support mechanisms, the Universal Service Administrative Company (USAC). To enhance our monitoring ability, we have created an open docket<sup>2</sup>, which allows data, materials, comments, and studies to be submitted by any interested party at any time.

The monitoring program has proven to be valuable, not only as a report on the effects of the Commission's regulatory policies, but also as a complete census of all incumbent local exchange carriers. Because smaller carriers generally are exempt from most Commission reporting requirements, the Monitoring Report incorporates data from several sources, including the National Exchange Carrier Association (NECA) and USAC. NECA, at the direction of the Commission, collects information in order to administer the access charge pools and to provide information to USAC to help administer the Universal Service Fund. USAC also collects information from all eligible carriers to administer the universal service support mechanisms. The Monitoring Report, therefore, contains the only available comprehensive data on all incumbent local exchange carriers, containing data on such matters as the number of telephone lines, calling volumes, and certain types of costs.

This report presents data for the eleven subject categories selected for monitoring. The first section provides information on the contributions to the universal service support mechanisms and industry revenues, on which those contributions are based. The next four sections provide information on the various support mechanisms: low-income support; high-cost support; schools and libraries support; and rural health care support. The remaining six sections provide information on matters that might be affected by the support mechanisms: subscribership and penetration; rates and price indices; network usage and growth; quality of service; infrastructure; and revenues, expenses, and investment.

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1     *Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order, FCC 97-157, para. 869 (released May 8, 1997).*

2     CC Docket No. 98-202.

Because the Monitoring Report is published twice a year and some of the information published is filed only once a year, not all tables are published in every issue. We recommend that users keep the two latest issues to be certain they have all the latest information. In this report, we only include tables for which we have new information, except for a few summary tables. The following are highlights of some of the material in this report. Section 1 provides an update on industry revenues by type of carrier, and the universal service program requirements and fund factors. Section 2 includes the latest data on the Lifeline and LinkUp America programs. Section 3 includes the most recent projected payments for all of the high-cost support programs, based on the quarterly reports from USAC. It also includes information from the latest filing by NECA for the high-cost loop fund. Section 4 includes updated data on the schools and libraries support. Section 5 includes updated data on the rural health care support. Section 6 includes the most recent Census data on subscribership from the Current Population Survey. It also includes data on telephone penetration by income by state and a discussion of the impact of Lifeline programs on penetration. Section 7 includes updated Consumer Price Index and Producer Price Index data and other updated rate information. Section 8 includes the latest NECA data on access minutes, dial equipment minutes, and separations factors. Section 9 includes updated data on the quality of service from the Commission's Automated Reporting Management Information System (ARMIS) reports. Section 10 includes updated data on infrastructure from the ARMIS reports. Section 11 includes the latest information on revenues, expenses, and investment from the ARMIS reports.

This entire report is available electronically through the **FCC-State Link** Internet site, which can be reached at <[www.fcc.gov/ccb/stats](http://www.fcc.gov/ccb/stats)>. It is available in both page image (.pdf) format and in a compressed (.zip) format, which, when unzipped yields word processing and spreadsheet files. In addition, information received well in advance of the next Monitoring Report will be made available on an interim basis in separate staff reports or in raw data files (such as most NECA filings used in the Monitoring Report) on the **FCC-State Link** internet site. In addition, the ARMIS data are available on the ARMIS Internet site, which can be reached at <[www.fcc.gov/ccb/armis/db/](http://www.fcc.gov/ccb/armis/db/)>.

For ease of public reference, parties submitting materials for this docket should provide a duplicate copy to the FCC's Reference Information Center,<sup>3</sup> where copies of all materials filed in the docket are available for public reference.

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## 1. Industry Revenues and Contributions

This section provides a general overview of the revenues of the U.S. telecommunications industry, and the contributions to the universal service support mechanisms that are based on these revenues. The information for 2000 comes from worksheets containing first-half 2000 revenue data that carriers filed with the administrator of the universal service support mechanisms. By October 2000, the universal service database contained first-half 2000 data for 2,593 contributing service providers. The data represent all carriers, although revenue data were estimated for some contributors due to late filings or inadequate filings and also for carriers that were not required to file a universal service worksheet. Over 1,000 carriers, however, were exempted from universal service filing requirements because their potential contributions to the universal service support mechanisms were expected to be *de minimis* - that is, their contribution for the year was expected to be less than \$10,000. Many of these *de minimis* carriers filed FCC Form 499-S and their data is included in Table 1.1.

Table 1.1 shows carrier's carrier revenues and end-user revenues for 1999 and first-half 2000 for six broad classes of carriers.

Universal service requirements include several mechanisms that help ensure that all Americans have access to affordable telecommunications service. In section 254(d) of the Telecommunications Act of 1996,<sup>1</sup> Congress mandated that "[e]very telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service." The Commission adopted funding mechanisms in a *Report and Order*.<sup>2</sup> The Commission subsequently selected the Universal Service Administrative Company (USAC) as the administrator. Carriers first filed FCC Form 457 (Universal Service Worksheets) on September 1, 1997, to report revenues earned in the first half of 1997. Starting with the September 1999 filing, carriers were instructed to file their revenue information on FCC Form 499-S (Telecommunications Reporting Worksheets, due each September), and FCC Form 499-A (Telecommunications Reporting Worksheets, due each April). These forms replaced the FCC Form 457 (Universal Service Worksheet). The FCC Form 499-A is similar to the Form 457. Beginning in May 2001, carriers began to file their revenue data quarterly, and are still required to file their annual revenue data on Form 499-A. Form 499-S, which is no longer in use, contained significantly less revenue information than Form 499-A.

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1 Pub. L. No. 104-104, 110 Stat. 56 *codified* at 47 U.S.C. §§ 151 *et seq.*

2 *See Federal-State Joint Board on Universal Service, Report and Order*, CC Docket No. 96-45, 12 FCC Rcd 8776 (1997) (subsequent history omitted).

## Revenues Data

Almost all telecommunications carriers are considered to be interstate service providers. Local telephone companies are classified as interstate service providers because they provide interstate access services. Similarly, competitive access providers, pay telephone operators, and cellular telephone companies derive revenues from providing access to interstate services and accordingly file worksheets. Virtually all pay telephone providers, interexchange carriers (IXCs), operator service providers (OSPs), and toll resellers provide interstate services. Special mobile radio (SMR) and private paging providers offer dispatch, paging, and some telephone services. At one time, SMRs were not regulated as carriers and did not have to contribute to the provision of telecommunications relay service (TRS). SMRs were first required to file TRS Worksheets in 1996. Private carriers are subject to universal service support mechanism contribution requirements but not to TRS contribution requirements.

Each legal entity that provides interstate telecommunications service must file a separate FCC Form 499. Each filer is required to report total and interstate revenues in two broad categories: service provided to other universal service contributors for resale (carrier's carrier); and, service to *de minimis* carriers and end users (end user). In the April version of the form, carriers must provide further breakdowns of local, wireless, and toll services as well as breakdowns for intrastate, interstate, and international service. Interstate and international revenues are combined in Table 1.1. One category of end-user telecommunications revenues -- toll calls that both originate and terminate outside of the United States, primarily call-back and World Direct type service -- is excluded from universal service contribution bases.

The Telecommunications Reporting Worksheets require each filer to categorize itself using one of the following categories:<sup>3</sup>

- Competitive Access Provider (CAP) or Competitive Local Exchange Carrier (CLEC)
- Cellular, Personal Communications Service (PCS) and Specialized Mobile Radio (SMR) Wireless Telephony Service Provider
- Incumbent Local Exchange Carrier (ILEC)
- Interexchange Carrier (IXC)
- Local Reseller
- Operator Service Provider (OSP)
- Other Local
- Other Mobile Service Carrier
- Other Toll Service Provider
- Paging and Messaging
- Pay Telephone Provider

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3 For detailed definitions of the categories, see the instructions to the Telecommunications Reporting Worksheet, Form 499-A, which can be accessed at <[www.fcc.gov/formpage.html](http://www.fcc.gov/formpage.html)>.

- Prepaid Calling Card Provider
- Private Service Provider
- Satellite Service Provider
- Shared Tenant Service Provider
- Special Mobile Radio - Dispatch
- Toll Reseller
- Wireless Data Service Provider

Table 1.1 summarizes total industry revenues and shows detail for six broad groups of carriers. Carriers reported \$26.3 billion of carrier's carrier revenues and \$109.4 billion of end-user revenues for the first half of 2000. \$40.0 billion of the end-user revenues were identified as interstate, which includes domestic interstate calls as well as international calls, but excludes calls that both originate and terminate in foreign points.

Carriers were instructed to report the amounts actually billed to customers. This means that carriers should report revenues net of discounts, but without making any adjustments to reflect uncollectible revenues or international settlement payments. Most filers should be able to report revenues in this manner using information contained in their corporate books of account. Some filers, however, have no business or regulatory requirements to record intrastate revenues separately from interstate revenues or to use the detailed revenue categories contained in the worksheets. Therefore, breakdowns are likely to be less accurate than industry totals.

The universal service and TRS rules prohibit the fund administrators from releasing information contained in the worksheets. Worksheet revenue data for individual carriers are not available to the public.

#### Program Requirements and Contribution Factors

Carriers make payments into the universal service mechanism based on their interstate end-user revenues. Carriers report their revenue data to the Universal Service Administrator, which tabulates the data, and reports it to the Commission. The Commission reviews program requirements and revenue data, and then determines the appropriate contribution factor. The Commission's Common Carrier Bureau then releases a public notice stating the proposed contribution factor for the upcoming quarter. If, after 14 days, the Commission takes no action regarding the proposed contribution factor, the factor becomes final.

On March 9, 2001, the Commission adopted a plan that modified the methodology used to determine payments that carriers make to the federal universal support mechanisms.<sup>4</sup> Before the

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<sup>4</sup> See *Federal-State Joint Board on Universal Service, Petition for Reconsideration filed by AT&T*, CC Docket No. 96-45, Report and Order and Order on Reconsideration, FCC 01-85 (rel. March 14, 2001).

change, carriers filed revenue information twice a year. Carriers filed first half-year revenues on September 1, and then filed whole-year revenues the following April 2. The first half-year revenues were used to determine the contribution factor for the first two quarters of the following year. The second half-year revenues (which equaled whole-year revenues minus the first half-year revenues) were used to determine the contribution factor for the last two quarters of the following year.

The revised methodology requires carriers to file revenue information quarterly rather than semiannually. The Commission sets the contribution factors based on the quarterly revenue information. Contribution factors are based on revenue information from the quarter that was half a year prior to the upcoming quarter. Accordingly, the interval between the accrual of revenues and assessment of contributions based on those revenues is approximately 6 months.<sup>5</sup> Prior to the adoption of the revised methodology, contributions were based on revenues from the prior year, resulting in an average interval of one year. Thus, the new methodology cut in half the interval between accrual of revenues and assessment of contributions based on those revenues. In addition to the quarterly revenue filings, carriers will also file whole-year revenue information on April 1 of each year. This filing will be used as an annual true-up.<sup>6</sup>

In order to accommodate the change in methodology, carriers were directed to file their calendar year 2000 revenue information as scheduled on April 2, 2001, and were then required to file their first quarter 2001 revenue information on May 11, 2001. Based on that information, the Commission set the contribution factor for the third quarter of 2001. In the future, revenue data for the first through fourth quarters of each year are due the following May 1, August 1, November 1, and February 1, respectively.

Tables 1.2a and 1.2b show the program funding requirements for 2000 and the first half of 2001 respectively. For each program and for each quarter, the tables list program demand, administrative costs, interest income, and periodic true-ups. The tables also show the revenue base and contribution factors for each quarter. If all carriers had provided correct revenue data on the filing dates, the end-user revenue totals would be the same for the first two and last two quarters of the year. The revenue totals change over time, however, because of late filings and corrections. The Commission reduces the amounts in the contribution bases by 1% to reflect the fact that some contribution assessments may prove uncollectable. As mentioned above, the first two contribution factors in 2001 were based on first-half revenues of the year 2000, but future contribution factors will be based on revenues filed two quarters prior.

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5 For example, the second quarter revenues will be used to calculate the fourth quarter contribution factor, and so on.

6 True-ups enable carriers to correct their revenue filings, if necessary.

**Table 1.1**  
**Telecommunications Revenues Reported by Type of Carrier**  
(Amounts Shown in Millions)

	1998		1999		First-Half 2000	
	Carrier's Carrier Revenues	End-User Revenues *	Carrier's Carrier Revenues	End-User Revenues *	Carrier's Carrier Revenues	End-User Revenues *
ILECs						
Intrastate	\$11,661	\$67,956	\$12,355	\$69,255	\$6,097	\$35,354
Interstate & International	\$16,291	\$11,806	\$18,064	\$12,542	\$9,986	\$6,477
Total	\$27,952	\$79,762	\$30,419	\$81,797	\$16,083	\$41,831
CLECs & Other Local Competitors						
Intrastate	\$1,014	\$1,330	\$1,561	\$2,807	\$931	\$1,552
Interstate & International	\$519	\$1,121	\$677	\$1,463	\$494	\$788
Total	\$1,533	\$2,451	\$2,238	\$4,270	\$1,426	\$2,339
Payphone						
Intrastate	\$87	\$799	\$245	\$790	\$60	\$302
Interstate & International	\$69	\$85	\$85	\$93	\$29	\$39
Total	\$156	\$884	\$331	\$883	\$89	\$341
Wireless Telephony						
Intrastate	\$2,370	\$27,023	\$4,248	\$36,923	\$1,917	\$20,156
Interstate & International	\$277	\$3,327	\$507	\$4,835	\$335	\$2,852
Total	\$2,647	\$30,350	\$4,755	\$41,758	\$2,252	\$23,007
Other Wireless						
Intrastate	\$500	\$2,697	\$493	\$2,579	\$214	\$1,268
Interstate & International	\$86	\$526	\$99	\$467	\$48	\$232
Total	\$586	\$3,223	\$593	\$3,046	\$262	\$1,501
Toll Carriers						
Intrastate	\$3,155	\$22,733	\$3,390	\$22,565	\$1,412	\$10,824
Interstate & International	\$9,474	\$58,048	\$11,017	\$61,444	\$4,793	\$29,603
Total	\$12,630	\$80,781	\$14,406	\$84,008	\$6,206	\$40,427
All Carriers						
Intrastate	\$18,788	\$122,538	\$22,293	\$134,919	\$10,632	\$69,456
Interstate & international	\$26,715	\$74,914	\$30,449	\$80,844	\$15,685	\$39,991
Total	\$45,503	\$197,452	\$52,742	\$215,763	\$26,317	\$109,447

\* Universal service contributions are based on interstate end-user revenues excluding revenues from international-to-international calls and revenues from *de minimis* carriers.

Source: Annual data from Industry Analysis Division, *Telecommunications Industry Revenues*. First-half year 2000 data from FCC Form 499 worksheets.

**Table 1.2a**  
**Universal Service Program Requirements and Contribution Factors for 2000**  
(Dollar Amounts Shown in Millions)

	2000				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
All Support Mechanisms					
Projections of demand and administrative expenses at the time the contribution factors were adopted					
High Cost					
Program demand	\$498.13	\$487.69	\$485.86	\$494.62	\$1,966.30
Administrative expenses	\$1.00	\$1.36	\$1.20	\$1.31	\$4.86
Interest income	-\$6.60	-\$6.60	-\$6.60	-\$1.40	-\$3.20
Periodic true-ups	-\$3.31	\$6.56	-\$21.62	\$3.23	-\$15.14
Program Total	\$495.21	\$495.01	\$464.84	\$497.76	\$1,952.82
Low Income					
Program demand	\$128.71	\$125.71	\$133.06	\$164.04	\$551.51
Administrative expenses	\$3.32	\$3.35	\$2.27	\$3.30	\$1.23
Interest income	-\$5.53	-\$5.53	-\$5.53	-\$7.78	-\$2.37
Periodic true-ups	-\$4.12	\$8.84	\$1.25	-\$11.61	-\$13.63
Program Total	\$124.38	\$126.36	\$134.06	\$151.94	\$536.74
Schools & Libraries					
Program demand	\$552.71	\$555.23	\$554.85	\$552.49	\$2,215.29
Administrative expenses	\$9.79	\$7.27	\$7.65	\$10.01	\$34.71
Interest income	-\$6.91	-\$13.90	-\$15.93	-\$16.09	-\$52.83
Periodic true-ups*	-\$63.67	-\$67.66	-\$189.99	-\$173.38	-\$494.70
Program Total	\$491.91	\$480.94	\$356.58	\$373.03	\$1,702.47
Interstate Access					
Program demand			\$162.50	\$162.50	\$325.00
Administrative expenses		Program began 3rd quarter 2000	\$2.25	\$1.14	\$0.38
Interest income			\$0.00	\$0.00	\$0.00
Periodic true-ups			\$0.00	\$0.00	\$0.00
Program Total			\$162.75	\$162.64	\$325.38
Rural Health					
Program demand	\$2.23	\$3.34	\$4.63	\$2.53	\$12.73
Administrative expenses	\$7.77	\$8.86	\$5.57	\$1.13	\$3.32
Interest income	-\$0.04	-\$0.01	-\$0.01	-\$0.01	-\$0.07
Periodic true-ups	-\$4.46	-\$0.09	-\$5.20	-\$8.81	-\$6.56
Program Total	\$2.50	\$4.10	-\$0.01	\$2.83	\$9.42
Grand Total	\$1,114.00	\$1,106.42	\$1,118.22	\$1,188.20	\$4,526.83
Applicable interstate and international end-user revenues	Based on first-half 1999 revenues		Based on second-half 1999 revenues		
Reported contribution base revenues	38,352.36	39,216.25	40,806.16	42,344.23	NA
Adjustment factor for uncollectibles	0.01	0.01	0.01	0.01	NA
Contribution base at the time the factor was calculated	37,968.84	38,824.09	40,398.10	41,920.79	NA
Contribution factor	0.058770	0.057101	0.055360	0.056688	NA
Contribution factor times 1/2 of contribution base	1,115.71	1,108.45	1,118.22	1,188.20	\$4,530.58

\* For the schools & libraries mechanism, periodic true-ups include applications of unused fund balance from prior periods.

**Table 1.2b**  
**Universal Service Program Requirements and Contribution Factors for 2001**  
(Dollar Amounts Shown in Millions)

	2001				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
All Support Mechanisms					
Projections of demand and administrative expenses at the time the contribution factors were adopted					
High Cost†					
Program demand	\$667.22	\$653.17			
Administrative expenses	\$1.49	\$1.68			
Interest income	-\$1.40	-\$1.40			
Periodic true-ups	-\$6.43	\$25.26			
Program Total	\$660.88	\$678.71			
Low Income					
Program demand	\$168.61	\$176.43			
Administrative expenses	\$ .36	\$ .43			
Interest income	-\$ .80	-\$ .80			
Periodic true-ups	-\$3.80	-\$5.86			
Program Total	\$164.37	\$170.20			
Schools & Libraries					
Program demand	\$553.23	\$554.88			
Administrative expenses	\$9.27	\$7.62			
Interest income	-\$23.85	-\$19.92			
Periodic true-ups*	-\$11.92	\$3.16			
Program Total	\$526.74	\$545.74			
Rural Health					
Program demand	\$2.43	\$1.89			
Administrative expenses	\$ .71	\$ .77			
Interest income	-\$ .03	-\$ .05			
Periodic true-ups	-\$1.29	\$ .01			
Program Total	\$1.82	\$2.63			
Grand Total	\$1,353.80	\$1,397.27			
Applicable interstate and international end-user revenues	Based on first-half 2000 revenues				
Reported contribution base revenues	40,925.43	41,014.70			
Adjustment factor for uncollectibles	0.01	0.01			
Contribution base at the time the factor was calculated	40,516.18	40,604.55			
Contribution factor	0.066827	0.068823			
Contribution factor times 1/2 of contribution base	1,353.79	1,397.26			

\* For the schools & libraries mechanism, periodic true-ups include applications of unused fund balance from prior periods.

† The figures for the high-cost mechanism now include the figures for the interstate access support mechanism.





## 2. Low-Income Support

In 1984, the Commission, in conjunction with the states and local telephone companies, established a Lifeline program designed to promote universal service by providing low-income individuals with discounts on the monthly cost of telephone service,<sup>1</sup> and it expanded that program in 1985.<sup>2</sup> In 1987, the Commission adopted LinkUp America, designed to help low-income households pay the initial costs of commencing service.<sup>3</sup> In the Telecommunications Act of 1996 (1996 Act),<sup>4</sup> Congress did not direct the Commission to take any particular actions on Lifeline and LinkUp,<sup>5</sup> but the Federal-State Joint Board created by the 1996 Act recommended expanding Lifeline and LinkUp rules. The May 1997 Universal Service Order adopted expanded rules.<sup>6</sup> In June 2000, the Commission further expanded the Lifeline and LinkUp programs to address the particularly dire needs of those living on tribal lands.<sup>7</sup>

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- 1 *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Recommended Decision, CC Docket Nos. 78-72 and 80-286, 49 Fed. Reg. 48325 (rel. Nov. 23, 1984) (recommending the adoption of federal lifeline assistance measures); *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Decision and Order, CC Docket Nos. 78-72 and 80-286, FCC 84-637, 50 Fed. Reg. 939 (rel. Dec. 28, 1984) (adopting the Joint Board's recommendation).
  - 2 *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Decision and Order, CC Docket Nos. 78-72 and 80-286, FCC 85-643, 51 Fed. Reg. 1371 (rel. Dec. 27, 1985).
  - 3 *MTS and WATS Market Structure, and Amendment of Part 67 of the Commission's Rules and Establishment of a Joint Board*, Report and Order, CC Docket Nos. 78-72 and 80-286, 2 FCC Rcd 2953 (rel. May 19, 1987), *Memorandum Opinion and Order on Reconsideration*, 3 FCC Rcd 4543 (rel. July 12, 1988).
  - 4 Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996 Act), *codified at* 47 U.S.C. §§ 151 *et seq.* We refer to the Communications Act of 1934, as amended, as "the Communications Act" or "the Act" or "the 1934 Act."
  - 5 47 U.S.C. § 254(j).
  - 6 *Federal-State Joint Board on Universal Service*, Report and Order, CC Docket No. 96-45, FCC 97-157, 12 FCC Rcd 8776, 8952-94, paras. 326-409 (1997) (*1997 Universal Service Order*), as corrected by *Federal-State Joint Board on Universal Service*, Errata, CC Docket No. 96-45, FCC 97-157 (rel. June 4, 1997), *appeal pending in Texas Office of Public Utility Counsel v. FCC and USA*, No. 97-60421 (5th Cir. 1997).
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  - 7 *Federal-State Joint Board on Universal Service; Promoting Deployment and*

they receive benefits from one of the five federal programs listed above; or (3) they participate in one of the following additional federal assistance programs: Bureau of Indian Affairs (BIA) general assistance, Tribally administered Temporary Assistance for Needy Families (TANF), National School Lunch Program's free lunch program, or Head Start (meeting the income qualifying standard).<sup>12</sup>

### Lifeline Support

Under the Commission's rules, there are four tiers of federal Lifeline support. The first tier represents a waiver of the federal subscriber line charge, which may range from \$3.50 to \$4.35 per month.<sup>13</sup> All eligible subscribers receive first tier support. Second tier support is a \$1.75 per month reduction in the basic local rate, and it is available if all relevant non-federal regulatory authorities approve such a reduction.<sup>14</sup> (All fifty states have approved.)

The third tier of federal support is based on the amount of additional state support mandated by the relevant state or otherwise provided by carriers. Federal support is available to match one half of the non-federal support provided, up to a maximum of \$1.75 in federal support, assuming that the carrier has all necessary approvals to pass on the full amount of this total support in discounts to subscribers.<sup>15</sup>

Eligible subscribers living on tribal lands also qualify to receive a fourth tier of Lifeline support if they meet the eligibility standards described above. Tier four support provides up to an additional \$25 per month towards reducing basic local service rates. This enhanced support should bring basic monthly rates down to \$1 for most Lifeline customers on tribal lands.

### LinkUp Support

The Commission's LinkUp program provides qualified low-income individuals with a federally-financed 50% discount (up to a maximum \$30 discount) on initial connection charges.<sup>16</sup> In addition, these subscribers can choose to schedule deferred payments of up to \$200 over a one-year period, with the customary interest charges paid by federal support.<sup>17</sup>

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12 47 C.F.R. § 54.409(a)-(c).

13 47 C.F.R. § 54.403(a)(1).

14 47 C.F.R. § 54.403(a)(2).

15 47 C.F.R. § 54.403(a)(3).

16 47 C.F.R. § 54.411(a)(1).

17 47 C.F.R. § 54.411(a)(2).

In addition, eligible residents of tribal lands can receive support to fully cover any charges between \$60 and \$130, representing up to a maximum of \$100 in discounts on initial connection charges of \$130 or more.<sup>18</sup>

### Services

Basic service must include, at a minimum: single-party service, voice grade access to the public switched telephone network, Dual Tone Multifrequency signaling or its functional digital equivalent, access to emergency services, access to operator services, access to interexchange service, access to directory assistance, and toll limitation. The federal program compensates eligible telecommunications carriers for toll-limitation based on the carrier's incremental cost of providing toll-limitation services.<sup>19</sup>

### Advertising

Carriers offering Lifeline and LinkUp are also required to publicize the availability of those programs "in a manner reasonably designed to reach those most likely to qualify for support."<sup>20</sup>

### Support Mechanism

The federal portion of the program is funded by the federal universal service support mechanisms, which include contributions from providers of interstate and international telecommunications, including payphone aggregators, and private network operators that offer service to others for a fee on a non-common-carrier basis. These carriers and service providers may pass on contribution expenses to their customers.

The FCC monitors subscriber participation and telephone usage to determine program benefits and costs.<sup>21</sup> Historical tables for subscribership and carrier payments by state can be

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18 47 C.F.R. § 54.411(a)(3).

19 47 C.F.R. § 54.403(c).

20 47 C.F.R. §§ 54.405(b), 54.411(d).

21 *1997 Universal Service Order*, 12 FCC Rcd 8776, 9218 at para. 869; *See Common Carrier Bureau Seeks Comment on Program to Monitor Impacts of Universal Service Support Mechanisms*, Public Notice, CC Docket No. 96-45, DA 98-580, IAD File No. 98-101 (rel. Apr. 24, 1998).